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C O N F I D E N T I A L SECTION 01 OF 03 TAIPEI 003880

SIPDIS

DEPT PASS TO AIT/W AND USTR
DEPT FOR EAP/TC, EAP/EP AND EB/IFD/OIA
TREASURY FOR OASIA ZELIKOW, WISNER AND OCC AMCMAHON
TREASURY ALSO PASS TO FEDERAL RESERVE BOARD OF GOVERNORS,
SAN FRANCISO FRB AND NEW YORK FRB

E.O. 12958: DECL: 09/18/2020

TAGS: ECON EINV PINR PREL TW CN

SUBJECT: PFP LEGISLATOR LIU YI-JU PUSHES CROSS-STRAIT
ECONOMIC TIES

Classified By: AIT ACTING DIRECTOR DAVID KEEGAN, REASON 1.5 B/D

¶1. (C) Summary: People's First Party (PFP) Legislator Christina Liu (Yi-ju) is a harsh critic of the Chen Administration's economic policies and believes that better cross-Straits relations are an urgent economic priority for Taiwan. At the same time, although she belongs to the same party as pro-unification PFP Chairman James Soong (Chu-yu), she believes Taiwan should not/not relinquish the option of independence, and she is very concerned with practical measures to protect Taiwan's economic interests. An educator by calling and innovative dynamo by bent, Dr. Liu has worked to improve the understanding of economic issues of her colleagues in the Legislative Yuan (LY). End summary.

Introduction:

¶2. (C) PFP Legislator Dr. Christina Liu spoke with AIT on September 2 and at an AmCham lunch on September 12 on the recent inter-Party, cross-Straits financial discussions she organized and led in Shanghai, Yangzhou, and Nanjing and her views of Taiwan's overall economic situation. Dr. Liu is the founder and chairperson of an informal inter-party legislative group, the "Financial Legislation Enhancement Consortium," which was established in March this year to promote better understanding of the economic statutes that the legislators must review. She has one of the strongest backgrounds in financial and economic affairs among members of the LY, and frequently writes and circulates opinion pieces on financial topics among her colleagues.

Financial Issues Delegation to China

¶3. (C) Even before PFP Chairman James Soong's landmark trip to China May 5-13, 2005, Dr. Liu had begun to organize a separate inter-Party LY delegation visit to China to discuss the practical cross-Straits financial issues that are of direct concern to Taiwan businesses. Taiwan's business community would like to see real progress on financial issues including direct RMB-NTD currency exchange and a mechanism for Taiwan companies invested in China to list on the Taiwan stock exchange. While accompanying Soong as part of his PFP delegation, Liu took the opportunity to speak with PRC Vice President Zeng Qinghong about her idea for broader-based discussions of practical financial issues.

"One China" Not the View of Most in Taiwan

¶4. (C) Shortly before the Soong visit in May, the PRC had announced that it welcomed visits by any Taiwan politicians willing to accept the "1992 Consensus" on "one China." Dr. Liu complained to Vice President Zeng that this was too restrictive, that the PRC needed to recognize that most Taiwan people were not ready to accept this condition. She explained to him her plan to bring a inter-Party delegation, including members of the ruling Democratic Progressive Party (DPP) to visit China in August and asked if this "1992 Consensus" restriction could be lifted for members of her delegation.

Visas Where None Were Issued Before

¶5. (C) PRC Vice President Zeng, Liu told AIT, agreed to her request on the condition that the delegation did not visit Beijing. The delegation she assembled was composed of 12 opposition party LY members, 12 ruling party LY members, as well as journalists, academics and business people. Dr. Liu even succeeded in obtaining PRC visas for DPP legislators Kuo Cheng-liang and Kao Chih-peng who had previously been denied visas to go to Hong Kong because of their outspoken pro-independence views.

CSB Squashes Inter-Party Cross-Straits Cooperation

16. (C) In late August, however, just days before the delegation was scheduled to depart, Taiwan President Chen Shui-bian, asserting his leadership (and fear of losing control over the pace of cross-Straits re-approachment), ordered that no DPP members should travel with this delegation. (DPP legislators Kuo Cheng-liang and Kao Chih-peng separately confirmed to AIT/ECON that they had been planning to travel with Liu's delegation until "events intervened.") In the end, the delegation led by Dr. Liu consisted of 12 legislators (all from the "pan-Blue" opposition parties), 30 prominent business and finance leaders, and 11 journalists. The delegation met with PRC banking officials, business executives, and academics in Shanghai, Yangzhou, and Nanjing. PRC party officials they met included the Secretary General of the Communist Party in Shanghai. Among the topics discussed was the continuing lack of any mechanism for direct currency exchange between the RMB and the NTD. Liu told AIT she had succeeded in persuading a deputy governor of the Peoples' Bank of China (PBC) that there was no practical reason why this obstacle to cross-Straits business should remain.

17. (C) Officials on both sides of the Taiwan Strait have long maintained that there can be no direct currency exchange until the two governments sign an MOU on currency settlements. Liu suggested a way to facilitate direct exchange that avoided the need for an MOU by using the PBC branch office in Hong Kong as an intermediary for settlements. Liu stated that the discussions also achieved consensus on about 20 other economic issues, including mechanisms for Taiwan businesses in China to list on the Taiwan Stock Exchange, RMB appreciation, and China's macro-economic adjustment.

18. (C) Dr. Liu told AIT that she had consulted with Taiwan's MAC and central bank both before and after her trip regarding the topics and proposals raised in the discussions. Liu said she that as a consultant to the MAC on cross-Straits currency exchange issues, she knew her proposal could be accepted by the MAC (MAC had vetted it in advance of the trip). She also stated that she had "indirectly" consulted with President Chen prior to her trip. She explained that one of her main goals was to allow Taiwan retail investors to be able to share in the profits of Taiwan firms in China, and thus a listing mechanism was important to her.

Financial and Economic Bills Promotion Society

19. (C) In March 2005, Liu organized an inter-party group within the LY, the "Financial Legislation Enhancement Consortium." Approximately half of the group's 20-30 members came from pan-Green parties and half from pan-Blue (opposition) parties. About 40 percent of the committee members serve on the LY Finance committee, while the other 60 percent serve on other LY committees. Liu expects the membership in this group will increase to over 30 during the LY session that started on September 13. Liu has also recruited some 50 scholars and business leaders to serve as initiators of a new think tank called the "Financial and Economic Laws Research Association."

Views on Taiwan Economic Issues

110. (C) Dr. Liu has a generally negative view of Taiwan's current economic performance. She is a harsh critic of the Chen administration's economic policies and in her conversations with AIT alleged widespread government corruption and waste. She told AIT and later told AmCham that she is opposed to any tax increases because more revenue would just create more opportunities for government corruption. The solution to the real problem of the government deficit of 3.5% of GNP (she maintains the true percentage is much larger than official statistics show) is to reduce the size of government and cut government spending.

111. (C) Dr. Liu voted against additional funding for the "Financial Reconstruction Fund" designed to help problem banks exit the market, claiming that non-performing loans in Taiwan's banking industry were not a serious problem, and did not justify a government bailout. She is very critical of Taiwan's Financial Supervisory Commission (FSC) because its commissioners are "academics who lack bureaucratic discipline" and "speak their ideas as though they were government policy." Dr. Liu was also very critical of the Taiwan government's use of "Build, Operate, Transfer" (BOT) contracts for public infrastructure projects. She strongly supports the demand by legislators for an investigation of possible malfeasance in the "five corruptions"-- construction of the Kaohsiung metro, the high-speed rail, stock market insider trading and the recent privatization of two state-owned enterprises.

112. (C) Dr. Liu said she does not think the Alternative

Minimum Tax Statute (reftel) will pass the LY because the KMT will block it. She personally opposes the bill because she believes additional government revenue will only encourage additional government waste and because of the statute's negative impact on investment in Taiwan. Liu has drafted an alternate version of the bill which would apply to individuals, but not corporations. She thought the government should devote more effort to establishing tax treaties with other countries as a prerequisite to taxing overseas income and reducing capital flight. She argued that establishing direct links with China is an urgent economic priority.

Not Seeing Eye-to-Eye with James Soong

¶13. (C) Liu said she would not join the September 14 PFP trip to China led by James Soong because of her disagreement with him over his statement in May that "Taiwan independence is not an option." Liu believed that a democratic government should not take away options from the people, at least half of whom, she thought, prefer independence. Under some circumstances, independence might be an option, she told AIT.

Additional Background

¶14. (C) Dr. Liu is the author of dozens of published academic and practitioner articles in international financial journals, as well as the author of four books on economic and financial topics. She spent over 18 years in the United States during which time she earned her Ph.D. in Economics from the University of Chicago and taught economics at City University of New York. In addition to being one of PFP's two at-large legislators, she is the founder and chairperson of the LY Financial Law Reform Forum, and a Professor at National Taiwan University as well as a Professor at Beijing's Tsinghua University. (Note: Over the past four years, Liu has traveled to Beijing every weekend to teach a total of six hours of classes on Saturday and Sunday at the Tsinghua campus there. However, this school year, she will

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teach at the Tsinghua campus in Shenzhen.) She is the daughter of former Finance Minister Shirley Kuo.

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